STAT

ARTICLE APPEARED
ON PAGE A-1

THE WASHINGTON POST
1 OCTOBER 1982

Cost of Transporting Arms To Egypt Probed by Justice

By Al Kamen and Scott Armstrong
Washington Post Staff Writers

The Justice Department is conducting a diplomatically sensitive investigation into the costs of transporting millions of dollars worth of military equipment sold to Egypt under an agreement reached after the signing of the 1979 peace treaty between Egypt and Israel.

The investigation involves $51 million in bills submitted to Egypt by the Egyptian-American Transport and Service Co. (EATSCo), the company that holds the exclusive contract for arranging the shipment to Egypt of the more than $3 billion in sophisticated electronics gear, artillery pieces, tanks, and other military equipment that the United States has agreed to sell that country.

EATSCo, which is based in Falls Church, was founded in 1979 by Hussein K. Salem, who U.S. intelligence sources say is a former Egyptian military intelligence official, and Thomas S. Clines, a former CIA official, specifically for the purpose of handling these arms shipments to Egypt. The contract was awarded by Egypt after negotiations handled by high-level Egyptian officials. It was reviewed and accepted by Pentagon officials.

Sources close to the investigation say that the $51 million in bills EATSCo submitted to Egypt during the first two years of its contract appears to be unusually high for the roughly $300 million worth of arms shipped during the time. In one instance, for example, sources close to the investigation say EATSCo submitted a bill for shipping 16 tanks to Egypt at $47,000 a tank. That amount is nearly four times the customary charge for what industry and government sources say would be a comparable shipment to the same area.

Prosecutors are sifting through EATSCo, Pentagon and Treasury Department records related to the arms shipments in an effort to determine exactly where the $51 million went after it was collected by EATSCo and whether any of it was billed or disbursed improperly.

The investigation centers on roughly $30 million of EATSCo's bills to Egypt that includes fees listed as owed to a middleman company that arranged for the ships to carry the equipment overseas. Prosecutors are investigating whether the use of the middleman—a practice Pentagon officials say is generally avoided in U.S.-government-funded shipping contracts—served to inflate the bills submitted by EATSCo to Egypt, and if so, who profited.

A source close to EATSCo said some of the money listed as owed to the middleman went instead to EATSCo. That source said Egyptian officials were aware of this and did not object to it, and that therefore EATSCo's procedures were proper.

Egyptian officials declined to comment on their arrangements with the company.

The investigation has been under way for about eight months, but it is still in its preliminary stages. No charges have been filed against anyone involved in the transactions.

An EATSCo spokesman said that while individual bills may appear high, federal investigators will find that such bills generally occurred when Egypt demanded especially fast delivery, which meant special and expensive chartering arrangements. Overall, he said, EATSCo's charges were competitive with other shippers.

"The customer [Egypt] is satisfied with EATSCo's performance and charges, including all profits, which are below the limits permitted by its contract," he said, adding: "EATSCo believes that at all times it has complied with applicable U.S. laws."

Salem, who now lives in Egypt, could not be reached for comment, but his attorney said that his client had done nothing improper. Clines' attorney, John Ellsworth Stein, said Clines "denies any allegation that EATSCo conducted any business in an unlawful or improper manner in its dealings with Egypt or the United States."

EATSCo sources said Salem bought Clines' share in the company last winter, and that Clines is no longer connected with EATSCo.